

The

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BUREAU OF BUSINESS AND ECONOMIC RESEARCH

# THE ATLANTA ECONOMIC REVIEW

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## *This Month's Authors*

### DAVID J. SCHWARTZ

Dr. Schwartz's article on franchising systems is taken from his larger study, Research Paper Number 14, published by the Bureau. The franchising system is used to establish outlets for many kinds of retail and service establishments. The author discusses the manner in which it operates, its advantages to both franchisor and franchisee, and lists certain questions to be considered before reaching a franchise agreement.

Dr. Schwartz is Professor of Marketing, School of Business Administration of Georgia State College of Business Administration.

### JOHN L. FULMER

The third and last part of Dr. Fulmer's series on "The Challenge of Economic Development in Georgia" points out the city of Atlanta as Georgia's greatest asset and the need for the state as a whole to capitalize on the economic advantages of its major city through the technique of mutual helpfulness.

Dr. Fulmer is Professor of Industrial Management, Georgia Institute of Technology.

### HUGH S. NORTON

Dr. Norton points out certain characteristics of motor carriers that differentiate them from other industries of a public utility nature. Because of these unique characteristics, regulation of motor carriers presents a multitude of problems, complex and formidable. The author suggests as a possible remedy less regulatory emphasis on specific points and specific commodities, and more tendency toward defining motor carrier rights on an area basis.

Dr. Norton is Associate Professor of Transportation, College of Business Administration, The University of Tennessee.

### WARREN A. WALKER

Progressive communities are recognizing more than ever before the need for economic planning and development programs. In this month's article Mr. Walker discusses the planning study for Carrollton, Georgia, pointing out the many benefits that have resulted to the city from the program.

# *Franchising Systems:*

*What?*

*Why?*

*How?*

by  
David J. Schwartz

The careful observer of business practices in the United States notes that new approaches to doing business appear to meet changing conditions. One of these new approaches, for want of a more descriptive term, is called the "franchising system." While the franchising system is not new, its development has taken place largely since the end of World War II.

Today franchising systems are established to develop coin-operated laundries, hamburger drive-ins, "soft" ice cream stores, baked goods stores, swimming-pool construction firms, drug stores, beauty salons, self-improvement schools, and dozens of other types of retail and service establishments.

## **How a Franchise System Functions**

Franchising systems vary widely in operation procedures, but a generalized pattern can be constructed. The parties involved are the franchisor, sometimes referred to as the seller or the licensor, and the franchisee, variously known as a dealer, outlet, associate, licensee, or member.

The franchisor may already be a corporate chain, as is true, for example, of Howard Johnson's and Western Auto. Or the franchisor may operate no retail outlets of its own, as is the case of MIDAS and some of the petroleum companies. In either case, the broad objective of the franchisor is to develop a market for its products or services.

The franchisee is usually an independent businessman, although it may be a partnership or a corporation. The franchisee invests all or a substantial part

of the capital required to establish the outlet.

The franchisor and the franchisee work together in this general manner: the franchisor advertises nationally (or over the area in which franchisees are located) and in other ways attempts to create public recognition of the franchised outlets. The franchisee, following the merchandising and business procedures outlined by the franchisor, proceeds to operate his outlet as an independent establishment.

The net effect of the cooperative action of the franchisor and franchisee is to develop a "chain" of independent businesses. In the ideal situation, the franchise system has the advantage of both the chain and the independent business. Extensive public recognition, standardized procedures, and known merchandise plus the enthusiasm and devotion of independent owner-operators in many cases result in a very successful marketing approach.

It should not be inferred that the franchising system is in any way a "guaranteed" approach to business success for either franchisor or franchisee. It is not. Attention is focused in this article, however, on the methods employed by successful systems.

## **Cost of a Franchise and Profit Potential**

It is difficult to generalize regarding the cost of a franchise; as little as only a few hundred dollars to \$100,000 or more may be involved, depending on the type of business and the franchisor's requirements.

One company that franchises seat-cover retailers requires a minimum investment of \$30,000; a com-

pany that franchises a take-home food service requires an initial investment of at least \$8,500. Coin-operated laundries are offered at prices ranging from \$7,500 to over \$25,000.

As a rule, the franchisor does not make a profit from the sale of the franchise. Rather, the initial investment is used to establish the business, i.e., lease a location, remodel, purchase equipment, provide operating capital, and purchase signs and displays.

The return to the franchisee on his investment is not easily determined. Advertisements frequently make claims such as "make \$15,000 per year on \$3,500 investment," or "200 per cent return first year." While the accuracy of such claims is questioned, there is general agreement that the franchised outlet in most fields is a more profitable operation than its unaffiliated competitor.

One accurate illustration of the profit potential of a franchised outlet was supplied by MIDAS, Inc., the well-known muffler and exhaust system supplier. Based on past experience, MIDAS estimates that a franchised outlet, which costs the individual franchisee approximately \$15,000 to establish, should develop a business volume of \$100,000 during the second full year of operation. After payment of all expenses including direct labor, the owner's compensation and profit before taxes should approximate \$23,000.

It must be emphasized that this illustration of profit potential, while typical for MIDAS, is not necessarily typical for any other franchising system.

#### **Contractual Arrangements**

Formal contractual agreements are usually used to define the rights and responsibilities of the franchisor and the franchisee.

Generally, the franchisor agrees to:

1. Grant a protected territory to the franchisee
2. Supply merchandise to the franchisee at a "competitive" price
3. Insofar as possible create and maintain good will for the benefit of the franchisee
4. Furnish trade marks, signs, and other materials which will identify the franchisee as an affiliate of the franchisor
5. Provide assistance in the management of the franchisee business.

Generally, the franchisee agrees to:

1. Invest a certain sum in his business
2. Purchase all or a specific portion of his merchandise from the franchisor
3. Pay the franchisor a certain amount at regular intervals for advertising purposes
4. Identify (with signs, posters, etc.) his outlet in exactly the manner prescribed by the franchisor
5. Advertise in the manner outlined by the franchisor.

#### **Selection of Franchised Dealers**

Companies most experienced in franchising operations exercise considerable caution in granting franchises. One company in the auto supply industry estimates that it rejects 95 per cent of the applicants for its franchise.

Regarding selection, National Car Rental System states its policy in this manner:

NATIONAL CAR RENTAL SYSTEM is composed of the finest car rental operators in the world—and it intends to remain that way. For this reason a high degree of selectivity is employed in the choice of all new members of NATIONAL and all must meet high standards in order that NATIONAL CAR RENTAL SYSTEM'S reputation for outstanding service to the traveling public may be maintained.<sup>1</sup>

Leading franchising organizations generally investigate the applicant's past work history, credit and financial standing, health record, home and community life, and educational background.

*How Much Experience is Needed?* With highly standardized procedures and with intensive training programs, some leading franchising organizations regard past experience in related activities as being of strictly secondary importance. The view of MIDAS, Inc., is particularly interesting:

Were you to study the backgrounds of a group of successful MIDAS Muffler shop owners, you'd find each one surprisingly different.

You might find, for example, a former TV announcer—a research chemist—a government accountant—a retired sea captain—an airlines radio operator—a housewife.

No two are alike. Yet they must have something in common that caused them to succeed so well in a business so apparently foreign to them.

Your first clue might come from the absence of something you might have regarded as important. Not one of these people had any previous automotive business experience. This is also true of most of the rest of the MIDAS Muffler Shop owners.

They simply don't need it. In fact, it relieves them of unlearning some of the bad business habits that have so long been plaguing the American public.

As for mechanical knowledge—the people our shop owners hire can be quickly and easily trained in the proper techniques of muffler installation. The inner qualities that will bring you happiness and success as a MIDAS Muffler Shop owner have little to do with things mechanical or automotive.<sup>2</sup>

"No previous related experience" is also preferred by other franchisors, including many of those sponsoring hamburger drive-ins, "soft" ice cream stores, and coin-operated laundries. Even in petroleum retailing, the operations of which are relatively complex, a leading individual made this statement:

With regard to previous experience, we do not insist that the applicant have Service Station experience. We would much prefer that he had already proven himself a businessman in some other endeavor, and that he come

<sup>1</sup> National Car Rental System Dealer Promotion Materials.

<sup>2</sup> From fact file on a typical MIDAS success story.



to us with a sincere desire to learn the Service Station business. We employ an aptitude test for prospective dealers that we have found successful in identifying qualified individuals.

The "no experience needed" rule is by no means universal. Some franchisors, such as those in the swimming-pool construction or home remodeling fields, generally insist on considerable previous related experience.

#### **Forms of Assistance Provided by Franchisors**

One of the basic elements of virtually all franchising systems is a program of management assistance for the franchisee. Management services provided by franchisors differ in variety and thoroughness, but the most common ones include general management counsel, assistance in personnel management, advertising, personal selling, and sales promotion assistance, accounting and record keeping, market research, outlet location, credit management, and community relations.

Since the franchisor's success depends entirely on the combined success of the franchised outlets, the trend is to devote more and more resources to developing the business ability of the franchisee.

#### **SPECIAL QUALITIES REQUIRED FOR FRANCHISING SUCCESS**

Two qualities stand out as absolute essentials in building a successful franchising system. These are (1) a highly standardized approach in all business operations by all franchised outlets and (2) a cooperative attitude on the part of everyone involved.

##### **Highly Standardized Approach**

The "why" and "how" of developing highly uniform business procedures is well illustrated in materials developed by the National Car Rental System for use by its members.

##### **STANDARDIZATION Reflects Unity**

In order to achieve unity in the eyes of our public, customers and prospective customers alike, we must all operate under "one banner" . . . one name always presented and used in the same manner. Identification of local offices is our banner. It must be standardized to have cumulative value with the traveling public . . . to set up a chain reaction of public acceptance all over the world.

Only with standardized identification can a stranger to your city know YOU ARE NATIONAL. Only with standardized identification can you benefit from NATIONAL'S powerful, hard-hitting advertising.

Only by the use of standardized sales aids can you harness the cumulative value of what your fellow members do in promoting NATIONAL in other cities . . . in inter-system reservations in helping you get more business!

Obtaining standardized operations is also one of the most challenging problem areas in developing a

franchise system. One major executive made this comment:

In our industry, probably the greatest problem in working with independent franchised outlets is that of coordinating and standardizing their operations on a nation-wide level so that the customer traveling from city to city will always find the same standardized service facilities and brand name at each outlet. Independent businessmen are naturally individualistic in their thinking and in their preferred methods of doing business, making it difficult to achieve the degree of standardization of operation and identification that inter-city travelers demand.

##### **Cooperative Attitude Needed**

As noted above, one of the major problems in building a successful franchising system is helping highly individualistic businessmen adopt procedures and techniques developed by the franchisor. That is why, as pointed out in the section, "Selection of Franchised Dealers," many franchisors prefer dealers who have had no related experience. Unlearning preferences and prejudices pertaining to business procedures is sometimes impossible for the individual with extensive experience in his own business.

The attitude "teach me the franchise way—I'll do everything possible to learn it" seems to be the one most outstanding quality needed by the individual who chooses to operate a franchised outlet.

##### **Check Lists for Prospective Franchisors and Franchisees**

Franchising systems are very attractive to franchisors and franchisees when properly managed and operated. Below are two sets of guideposts, one for franchisors and one for franchisees, which suggest the key questions to be asked before deciding to establish a franchise system or to join such an organization.

##### **Guideposts for Prospective Franchisees**

The individual considering acquiring a franchise will do well to investigate the proposition carefully before making a decision. Questions that need a positive answer prior to reaching a decision to go ahead include:

1. Do I have sufficient capital to meet the minimum required by the franchisor and still cover living expenses until the business is profitable?
2. Do I have absolute proof that the franchisor is a thoroughly reputable company? (If in doubt, contact a Better Business Bureau or purchase a credit report on the company and its principal executives).
3. Does the franchisor have full-scale training and merchandising programs?
4. Am I convinced that affiliation with a franchise is superior, all things considered, to going

into business for myself with no affiliation whatever?

5. Am I willing to sacrifice some independence of action and conform to procedures established by the franchisor?

6. Is the contract fair in every respect? Does it guarantee a protected territory? Are the terms for termination satisfactory? (It's generally advisable to have the proposed contract reviewed by a legal expert.)

7. Has the franchisor been in business long enough to demonstrate the profitability of the system? (Ask to see actual operating statements of other franchisees which belong to the system.)

8. Has the franchisor investigated me very carefully? (Generally, the more thoroughly the franchise applicant is investigated, the better is the franchise.)

9. Am I satisfied that the demand for the product or service is both permanent and increasing?

10. Is the franchisor well known and taking positive action to becoming better known?

#### *Guideposts for Prospective Franchisors*

The company considering developing a franchising system will profit from giving thorough con-

sideration to these questions:

1. Do we have sufficient capital to develop the system and carry on until it becomes profitable?

2. Have we developed a merchandising approach which can be applied successfully in different areas? Is our approach thoroughly tested? Do we know it will work?

3. Do we now have substantial public recognition? Do we have plans for increasing this recognition?

4. Is our proposition sufficiently promising to attract capable individuals to our franchising system?

5. Are we prepared to offer extensive training services to develop successful franchisees?

6. Is our plan for franchising superior in certain respects to competitive systems?

7. Will we be able to secure the degree of conformity on the part of our franchisees to make the system successful?

8. Is the franchising method definitely superior to expansion through company-owned outlets?

9. Is there a clearly defined and growing demand for our product or service?

10. Do we have the management talent and management philosophy that will develop loyalty and respect among all franchised outlets?

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# *The Challenge Of Economic Development In Georgia*

## *A Three Part Series*

By John L. Fulmer

### *Part III. Atlanta's Leadership*

#### **The Empire City of the South**

Metropolitan Atlanta, now constituted of the five counties of Clayton, Cobb, DeKalb, Fulton, and Gwinnett, has a population nearing the million mark. It has long been recognized as a transportation and communications center for the Southeast. But Atlanta is even more typically a distribution center for the area. It has more than 3,300 branch offices of national companies engaged in manufacturing, wholesaling, and distribution activities. The banking community consists of the Sixth District Federal Reserve Bank and a number of large privately-operated banks which rank well up with the nation's leading banks. Surely in these three categories alone Atlanta deserves the recognition it is getting as the "Empire City" of the South. It is Georgia's greatest attraction to outside business. It has the inherent strength to forge ahead alone. The challenge of economic development in Georgia is the proper use of Atlanta's potentialities by the state's business and political leaders to further the development of Georgia and the South. In this article we shall attempt an answer to this problem by focusing attention on the growth status of Atlanta, measures of its leadership, its impact on North Central Georgia, and the next steps in the development of Atlanta and Georgia.

#### *The Significance of Market Factors*

A comprehensive study of industrial location in the South by McLaughlin and Robock in 1949<sup>1</sup> determined that considerations relative to market size and raw materials led in location of new factories in the region; labor resources were somewhat less important. Developments since 1949 indicate that growth in market size has steadily increased in importance in determining new industry locations. It will come as a surprise to many, therefore, that market factors have contributed greatly more to the region's growth in recent years than have raw materials or labor. Obviously, the South has abundant supplies of cheap labor, but this item is no longer the leading strategic factor in industrialization except for apparel and a few similar industries. Modern industry, including textiles, is moving increasingly towards automation and electronic controls. This trend is dependent upon better educated laborers and a relatively large number of highly-skilled workers, as brought out in the first article of this series. In the case of materials, the Southeast does

<sup>1</sup> Glenn E. McLaughlin and Stefan Robock, "Why Industry Moves South," National Planning Association, 1949.

not have extensive known mineral resources except iron ore primarily in the Birmingham area. The extensive known material resources are of agricultural origin. Cotton, tobacco, and forestry resources are already extensively processed in the region, though forest products seem not to have been fully exploited. It appears, therefore, that Georgia's greatest potentials continue to be tied in with market growth, hence the necessity for continued strong emphasis on the factors which step up population increase, per capita income, and the standard of living.

#### *Growth is Self-Perpetuating*

Studies of economic development show that as an area approaches full utilization of labor and material resources, involving increasingly market-oriented industries, there is a speed-up in the development of central places. This trend in convergence of manufacturing to the large centers produces inherent economic advantages from the greater division of labor and the growth of supporting service industries. With growth in superior quality services, linkages of industries, and satellite relationships, the attraction grows into a magnet for people and in turn for more services and industries. People cause residential construction and all sorts of public construction; the resulting rise of income causes rapid expansion of market institutions. This encourages further expansion, which in reality produces round after round of expansion. Population experts in a study of American cities have concluded that no city of 500,000 or over has failed to grow in any decade since 1920. This is because the growth of such cities is inherent, self-perpetuating.

The growing capacities of these larger centers, the job attractions, and the opportunities for cultural and personal development which they provide attracts from the rural counties and elsewhere the entrepreneurial types—the younger, better educated, more aggressive individuals. This not only drains off the leadership from rural areas, a damaging effect, but it also concentrates the bulk of the enterprisers in the big centers. Here these aggressive types develop into the "Captains of Industry," and provide the genius, the spark, and the initiative to create new industries; new personal empires; and, in the process, numerous jobs for others. This growing potential for jobs provides the attraction for people and industry. Its importance is shown by the fact that a survey of commuters in the fall of 1957 indicated that Fulton County provided 40,000 more jobs than there were workers living in the county.

#### **Atlanta's Leadership**

In measuring Atlanta's leadership, we see it strikingly in a comparison of two simple ratios: population growth and gains in nonagricultural employment. From 1950 to 1957, metropolitan Atlanta accounted for nearly two thirds of Georgia's

population growth and four tenths of the State's gain in nonagricultural employment. As confirmed by the number of commuters into Atlanta from surrounding areas, *it is apparent that Atlanta's business leaders are creating jobs faster than people move into the area.*

Other measures of Atlanta's leadership are shown in Table 1. The table contains two columns of figures. In the first column is shown, for selected factors, Atlanta's percentage of the state total. This column of figures will be easily read and understood. For instance, Atlanta contains 24.7 per cent of the state's population, 33.9 per cent of its physicians, and 65.7 per cent of the state's wholesale trade activity. The next column presents the comparison in terms of Atlanta's standing with reference to its relative importance in population. An example of how to use the column follows: In the first column it is shown that Atlanta has 24.7 per cent of the state's population and 65.7 per cent of wholesale trade. The ratio of population to wholesaling is therefore 1 to 2.66. This means that compared to population Atlanta has 2.66 times as much wholesaling. Similarly, the table shows that the city has 1.39 times as much income as population, 1.33 times as many doctors, 1.47 times as many non-agricultural workers, 2.42 times as many registered

TABLE 1  
ATLANTA'S PROPORTION OF GEORGIA'S TOTAL  
IN SELECTED ITEMS

Items Shown as Share of State's Total	Percentage of State's Total	Ratio to Atlanta's Population Percentage
I. General items:		
Population	24.7	1.00
Value of retail sales	33.7	1.36
Total personal income	34.4	1.39
Value of wholesale trade	65.7	2.66
II. Employment (insured):		
Total	36.3	1.47
Manufacturing	27.2	1.10
Government	28.2	1.14
Construction	38.8	1.57
Trade	41.9	1.70
Transportation, communication, and public utilities	47.6	1.93
Service	48.5	1.96
Finance, insurance, and real estate	62.2	2.52
III. Professional:		
Physicians	33.9	1.33
Dentists	43.7	1.77
Lawyers	45.3	1.83
Registered engineers and architects	59.8	2.42

Source: Basic data obtained from a number of sources: from registers of the Secretary of State of Georgia, from reports of the Georgia Department of Labor and the Georgia Bar Association, studies published by the Georgia Institute of Technology, and from the U. S. Census Bureau.



engineers and architects, and so on for eleven additional factors. It all adds up to an impressive statistical picture of metropolitan Atlanta's leadership.

The data presents a striking array of economic factors measuring Atlanta's leadership. What are Atlanta's contributions to Georgia? The role of Atlanta in Georgia's economy is analogous to the leader in any situation. Business leaders in Atlanta, as everywhere, organize companies, develop new industries, and create jobs. They help provide a living to others through employment opportunities for people. The income generated raises the living standards of the community, adds to the tax collections, and results in a higher level of community services. Atlanta is a collection of business leaders. They individually and collectively make Atlanta, whose volume of business and jobs helps make Georgia.

#### *Commuting Workers*

The excess of jobs created in Atlanta attracts migrants and commuters. Probably 15,000 to 20,000 people migrate to Atlanta yearly. Another 25,000 (net) commute to the greater Atlanta area for jobs. However, taking into account cross-town commuting between the five counties which constitute Atlanta, there are probably 75,000 commuters.

The 25,000 workers who commute directly to the five counties from outside the five-county area come from 44 counties in North Central Georgia. They return to their home counties with 65 million dollars, or an average of over 1.5 million dollars per county. In some of the counties near the five-county Atlanta metropolitan area, income earned outside the county represents over 25 per cent of the total income payments of the county. The chart (Figure 1) entitled "Atlanta: Georgia's Mountain of Economic Strength" gives a picture of Atlanta's great economic power in seven important economic areas. The amount by which each bar is above the population bar indicates the city's relative economic strength. The differentials make the five-county area stand out like a mountain of economic strength, the result of an abundant and intensive type of economic development. From the standpoint of business leadership, it can be truly said that Atlanta has in the fields of finance, trade, transportation, communications, public utilities, government, and education a mass of talent assembled in one spot. It is being used aggressively to develop Atlanta and Georgia.

#### **Atlanta: The State's Primary Asset**

The next and the last question to be considered in this series is how can Georgia best capitalize on the state's greatest asset, Atlanta's leadership and its great economic strength. The answer is: through better and more rapid exploitation of an area of

mutual interest which exists between Atlanta and the rest of the State.

Modern manufacturing, resulting in comparatively less labor due to automation, and abetted by increasing mobility of labor, demands plenty of space. This causes industry to move from the city's central core to outlying areas which are within reach of adequate transportation. The result is that a series of subdominant, satellite-like areas are developing around Atlanta. In view of experience in other central cities, it is expected that this movement, strongly under way for sometime, will greatly accelerate as growth continues. But the speed of this satellite-like development and of the growth of Atlanta will depend on transportation, space, and community organization. Adequate space is available within the zone of accessibility, up to a radius of fifty miles. It will be limited in its use, however, by the adequacy of the road network and transit services for commuters.

The twin problems of the road network and cheap commuter buses are not being solved with sufficient speed (though the answers have been available on paper for a number of years) to accommodate the maximum number of commuters possible from 44 counties and from other counties which could be brought within range. The build-up of jobs in Atlanta is therefore being reflected in traffic congestion, which could become a bottleneck to rapid growth of the Atlanta complex. This would not only damage Atlanta but would also affect jobs of commuters from over 40 counties. Completion of the road network with all possible speed is an example of an important contribution which the state can make to its "Jewel City" and indirectly to employment opportunities of workers from 44 or more counties.

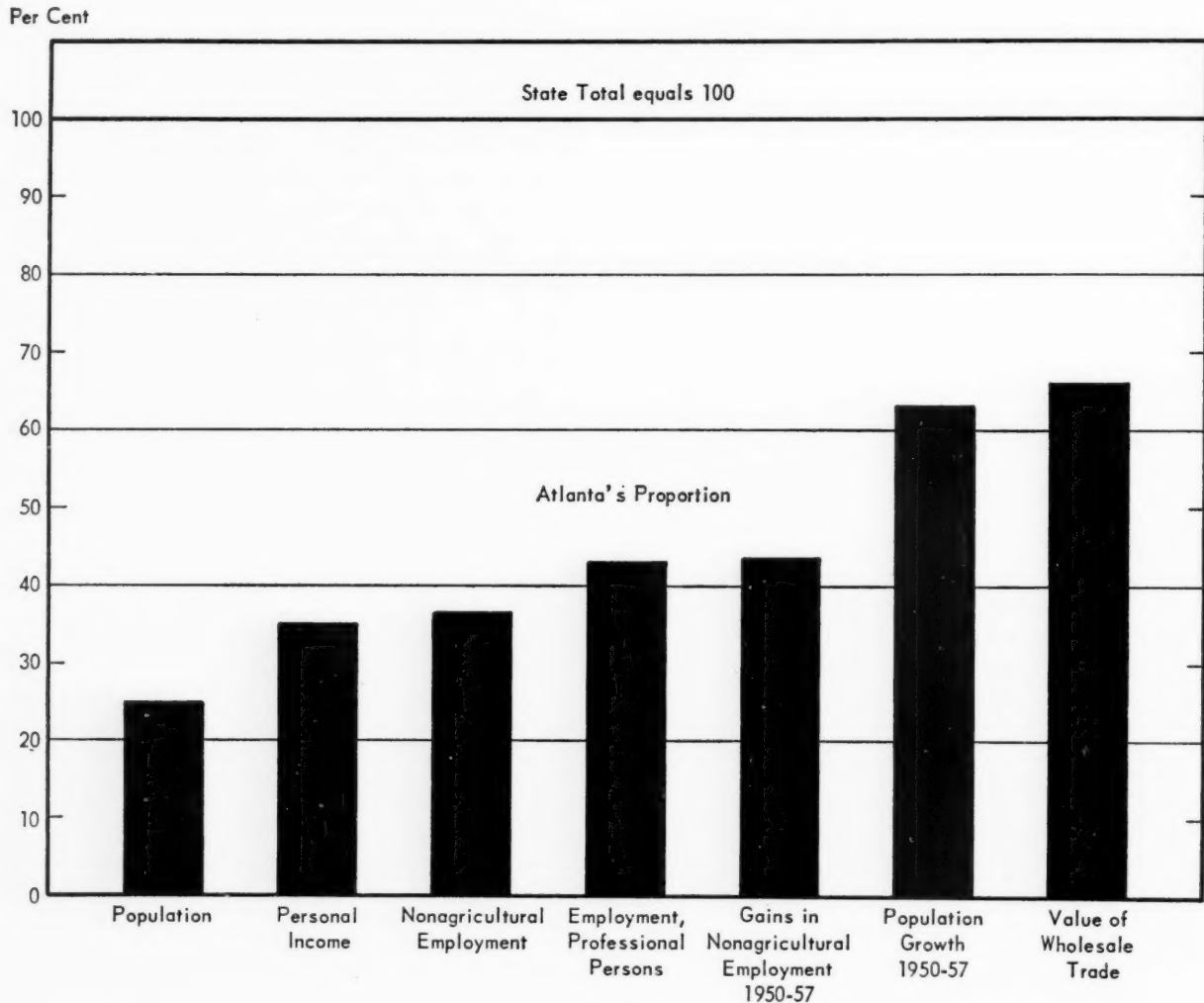
Atlanta's contribution is reflected by the actions of its business leaders in encouraging more large, self-sufficient factories to locate in the present outlying employment points and also in the other seven counties selected to balance out the state's rural employment opportunities.<sup>2</sup> The big wholesalers of the area and other large distributors can make contracts with small, local manufacturers in some of these areas to assure them of a certain volume of sales, thereby aiding their financing and growth potentials. From personal knowledge the author knows that this is already being done by Atlanta businessmen, particularly the bankers. The work of the Georgia Power Company in this connection is especially noteworthy; and several other agencies in town, through their development agencies, also are on the job for the rural counties.

In conclusion, this article continues the theme of the necessity of creation of jobs by the state and

<sup>2</sup> See Part II of this series, "Help for Rural Counties," *The Atlanta Economic Review*, September 1959, p. 18.

FIGURE 1

ATLANTA: GEORGIA'S MOUNTAIN OF ECONOMIC STRENGTH  
(Chart shows percentages of important economic activities located in Metropolitan Atlanta)



Source: See note to Table 1.

other agencies to insure growth. The emphasis in this article has been on Atlanta's business leadership in providing jobs for people in the area and from numerous outside counties. The plea is that the whole state go forward by capitalizing on its greatest asset, Atlanta, through the technique of mutual helpfulness. The state contributes to Atlanta through early completion of the road network; Atlanta businessmen contribute jobs to rural areas, directly for commuters coming into Atlanta, and

also jobs indirectly: (1) through reinforcing industrial development of the outlying counties already established as employment points and (2) through location initially of industries in seven other counties which are needed as employment points to balance the employment opportunities for all the rural counties of Georgia. The maximum of mutual helpfulness of the state and Atlanta towards each other for the benefit of all the people of Georgia is the challenge of this third and last article in the three-part series.

# *The Motor Carrier Industry: Can It Be Economically Regulated?*

by  
Hugh S. Norton

Students are told that transportation as an industry has certain characteristics which make economic regulation necessary in the public interest.<sup>1</sup> In summary these characteristics are:

(1) The fact that transportation is essential to the social and economic welfare of the economy, i. e., it is an economic activity "clothed with the public interest." The legal basis of such regulation is firmly entrenched in Anglo-Saxon thinking.<sup>2</sup>

(2) A tendency toward destructive competition, arising from the capital structure and from the cost relationships within the firm. Since such a large portion of the costs in a public utility enterprise are fixed, i. e., they do not vary in direct relation to output, the firm has little incentive to reduce output or to cease operations in the face of declining demand. The railroad industry is the classic example in this situation in that the very large costs associated with the fixed debt and the maintenance of physical plant are influenced very little by changes in output. Under these circumstances an enterprise, in an effort to reduce costs, will carry competition to a point much beyond that at which a firm of another type might have ceased to operate.

These two factors, combined with the highly specialized nature of the plant, are said to cause transportation enterprises to carry competition to the point at which the least able firms fail to survive—resulting in economic waste, loss of services to shippers, and presumably a monopolistic advantage for the surviving firm or firms.

## **Unique Characteristics of Motor Carriers**

To what extent does the motor carrier industry exhibit these economic characteristics? Do motor carriers have characteristics in common with rail carriers and other industries of a public utility nature? Aside from the fact that motor carriers engage in transportation, there seems to be little common ground.

Testing the motor carrier industry against the criteria established above presents serious difficulties since the "industry" is so heterogeneous as to defy definition. Unfortunately, the industry consists of carriers of varying types. Those most akin to the railroad carriers are the regular route common carrier operators. These firms operate over fixed routes between fixed termini, publish rates, and in general are the best known and the most stable portion of the industry.

Some of these motor common carriers are quite large, operating several hundred vehicles and serving a number of states. However, the more typical carrier operates less than one hundred vehicles and has little investment in plant or equipment aside from the vehicles themselves. Even the largest trucking firm has a modest investment in plant compared to the average rail carrier. Common carriers operate under a certificate of convenience and necessity and have "rights" to haul general freight, household goods, petroleum products, or some other commodity. Of all motor carriers, the common carrier is most like rail carriers in legal status and mode of operation.

Contract carriers also operate under the protection of a certificate of convenience and necessity or permit, but restrict their services to those shippers with whom they have contracts. Contract carriers do not, of course, publish rates open to the public.

Private and exempt carriers operate under the terms of Section 203 of the Interstate Commerce Act, Part II. Private carriers are those operating on a non-for-hire basis in the furtherance of some nontransportational enterprise. Private carriers are not subject to economic regulation by the Interstate Commerce Commission. Carriers engaged in the for-hire transportation of unprocessed agricultural products are also exempt from economic regulation. However, both these carriers may and do lease themselves out to for-hire carriers, and thus in effect become part of the for-hire portion of the industry. Exempt agricultural carriers have no certificate of convenience and necessity, publish no rates, and are responsible to the Interstate Commerce Commission only for observance of the safety rules regarding interstate vehicles.

<sup>1</sup> In terms of common usage, the various segments of the transportation system are referred to collectively as an "industry." However, the most superficial examination makes it clear that the various modes have few economic characteristics in common.

<sup>2</sup> For an excellent discussion of the social and legal background of this problem, see: Emery Troxel, *Economics of Transport* (New York: Rinehart and Co., Inc., 1955).



It will be appreciated that the task of policing the regulated portion of the industry is somewhat complicated by the fact that almost nothing is known about the operations of exempt carriers except that they move the major share of agricultural products. It is difficult to see how contract, private, and exempt carriers can in any way be said to have the characteristics of a public utility.

Insofar as the for-hire carriers are considered as the "industry," subject to economic regulation, the test of public interest can be applied only with difficulty. The structure of the industry and of the regulatory system makes the element of public service almost impossible to evaluate. For example, while a medium-sized city may be served by a score of motor carriers, the fact that some are carriers of general freight, others of specialized commodities such as household goods, petroleum products, refrigerated commodities, etc., makes the pattern extremely complex. This situation is complicated still further by the fact that some are common carriers and others are contract carriers with regular or irregular routes—to say nothing of the extensive operation of "exempt" for-hire carriers, as well as the large number of private carriers. In short, the possibilities of competition are almost infinite.

Since the public highway system is used as a right of way, the possibilities of service between various geographical points are too numerous to be classified. Almost any community in the nation can be reached by motor trucks operated by private, contract, or common carriers. Indeed, the growth of private carriage has made it practicable for all but the smallest shipper to provide his own carriage, an alternative not readily available to users of utilities services in general. This very fact throws considerable doubt upon the role of motor transport as a "public service" industry.

#### *Flexibility of Costs*

While there is ample evidence of severe competition between motor carriers, it is unlikely that this competition has arisen because of high fixed costs, specialized plant, and large investment, as is true of railroads. In fact, the opposite is true, viz., the ease of entry because of low fixed costs, small investment, and flexibility of equipment has made competition almost uncontrollable, despite the existence of Part II of the Interstate Commerce Act. While the amount invested in plant and physical facilities has been increasing in recent years, motor carrier costs are still predominately of a variable nature. In 1955, operation and maintenance expenses accounted for 86.9 per cent of the total motor Class I carrier costs.<sup>3</sup> The operating costs referred to are, of course, related almost entirely to vehicle operation. Costs

of fuel and oil and driver wages are almost directly related to output. Many license and tax payments are related in some way to output. While a degree of maintenance must be performed under any circumstances, it can be greatly cut down by a reduction in or suspension of operations.

Strangely enough, some of the smaller motor carriers, especially the one- or two-truck exempt operators, may encounter the most rigid cost structure due to the fact that equipment amortization imposes a heavy burden which must be met with regularity.<sup>4</sup> In the case of regulated carriers, 77 per cent of such carriers had long-term obligations in 1952, as opposed to 73 per cent in 1941.<sup>5</sup>

Despite such variations, the motor carrier industry as a whole has costs which are closely related to output, and which can be reduced almost to zero by suspension of service. While regulated carriers cannot legally suspend service without great risk, nonregulated carriers can and do drift into and out of the industry at will. Especially in the exempt areas of the trucking industry, entry into the field is so simple that great instability in rates and service has resulted from the entry and exit of firms having, in general, a short life. While the instability thus created works some hardship on individual carriers and shippers, there is little evidence that it is, in the aggregate, a serious economic problem.

Periodic and regional shortages or overages in the supply of carrier services do occur, but such miscalculations are not serious threats to the economy. Moreover, such problems cannot be entirely avoided by regulation and may be intensified by regulatory shortcomings.<sup>6</sup> Thus the economic factors which have brought about regulation in the railroad industry are entirely absent in the motor carrier field.

#### **The Merger Movement Among Motor Carriers**

The trucking industry has recently been passing through a period of merger and consolidation. Some writers have seen this trend as resulting from an adverse policy on the part of the Interstate Commission or from a failure on the part of the Commission to carry out Congressional policy as set forth in Part II of the Interstate Commerce Act.<sup>7</sup>

It seems likely that the growth of trucking company mergers can be explained by an examination of the economic developments in this industry. Indeed, there is some reason to feel that the attempts of the Commission to carry out fully the mandate of the Interstate Commerce Act, Part II are directly responsible for the situation.

<sup>4</sup> See H. S. Norton, "The Itinerant Trucker, A Problem in Economic Growth," *Land Economics*, May, 1958, Vol. XXXIV, No. 2.

<sup>5</sup> Interstate Commerce Commission, Statement No. 5614, op. cit.

<sup>6</sup> See: *Transportation of Florida Frozen Orange Juice Concentrate*, A.M.S.-50, U. S. Department of Agriculture, Washington, D. C., May, 1955.

<sup>7</sup> *Trucking Mergers, Concentration, and Small Business: An Analysis of Interstate Commerce Commission Policy, 1950-56*. Report prepared for the Select Committee on Small Business, U. S. Senate, by Dr. Walter Adams and Dr. James B. Hendry, U. S. Government Printing Office, 1957.

<sup>3</sup> Interstate Commerce Commission, Statement No. 5614, Survey of Class I Motor Carriers of Property, 1939-1954, Washington, D. C., May, 1956.



It is the present writer's view that the growth of mergers is due to the following factors:

(1) The death and retirement of many of the original founders of the successful motor carrier firms

(2) The natural desire on the part of motor carrier management to explore the possibilities of economies arising from large-scale operation

(3) Legislative and administrative policies such as the extremely narrow definition of rights, and the growth of the "agricultural" exemption

(4) Growing marketing areas served by motor carriers, necessitating consolidated operations

(5) Increasingly severe competition in the years following the second World War.

Such consolidations will be likely to result in a situation of regional oligopoly in place of the atomistic competition which has characterized the motor transportation industry. There is no indication that such a situation would be detrimental to the shipping public; it might in fact result in increased service through stronger, well-integrated companies.

In attempting to implement a regulatory system unsuited to the purpose, the Commission has followed a policy of construing operating rights so narrowly as to result in a highly atomistic competitive situation. In short, the motor carrier industry, far from being a public utility, is a highly competitive industry made up of small units. Unit costs are low; investment required is small; and, except for the legal restrictions imposed, it is easy to enter or leave.

The Commission is thus faced with the problem of attempting to enforce a regulatory philosophy based upon economic characteristics which do not exist in the motor carrier industry.

#### **Practical Difficulties Regarding Regulation**

Aside from these economic conflicts, the practical problems incident to regulation are enough to overcome the most ardent advocate of regulation. No one knows how many motor carriers are in operation at any given time, and even the major carriers exist in numbers sufficient to present a serious regulatory problem. For example, those sections of the Interstate Commerce Act which exempt certain interstate motor carriers from economic regulation do require those carriers to observe safety regulations.<sup>8</sup> Unfortunately, the Bureau of Motor Carriers has no way of knowing how many operators are subject to these regulations. Those in responsible positions in the Bureau make no pretense that their files represent any substantial portion of the interstate carriers. Operators who file of their own volition or those who are contacted by field inspectors are made

aware of their responsibilities. Even in these cases, no attempt is made to maintain the files in current order. No responsible persons condemn the personnel of the Commission for this situation. No reasonable expenditure of time, money, and manpower could perform an efficient regulatory job for such a far-flung, small-unit industry as this.

While this paper is not concerned with safety regulation per se, the difficulties encountered illustrate the problems which would be faced by the Commission if regulation of economic relationships were to be extended.

A tremendous amount of legislative and administrative time and effort has been expended since 1935 in attempts to make the Motor Carrier Act perform efficiently. However, despite this effort, economic regulation remains a hodgepodge of mismanagement and conflicting criteria. It is conceivable that the Commission could be enlarged and the enforcement staff built up to the point where the industry could be policed adequately. Some reflection would indicate the size of the staff necessary to perform this service, and further reflection would raise the question as to whether such regulation is worthwhile. In short, given the fact that effective regulation would require a very substantial increase in staff, does the end justify the means?

#### **A Suggested Remedy**

While the problems discussed in this paper are too complex to yield to any simple solutions, some recommendations do seem obvious. It is likely that a great deal of the detailed regulation of motor carriers could be eliminated without any serious impairment of regulatory efficiency. The present emphasis upon point-to-point authority and the emphasis on types of commodities carried makes for great confusion.

Perhaps a system could be devised which would preserve a degree of entry stability by defining rights on an area basis, instead of the present emphasis on specific points. Likewise, a degree of breadth could be obtained by laying less stress on the commodities carried. Since most motor carriers have developed over the years into somewhat specialized carriers, no serious dislocation should result from such a policy. That is, a carrier equipped to transport petroleum products or livestock is not apt to engage in the carriage of household goods, even if it were legally free to do so. In this respect, conditions have changed substantially since 1935 when motor carrier regulations became a fact.

If these moves were successful, it might demonstrate that a gradual de-regulation of the industry would be economically practicable and politically acceptable. At the same time the work load of the Commission would be greatly reduced, and the self-regulatory possibilities of the motor carrier industry would be apparent.

<sup>8</sup> No serious question arises as to the desirability of safety regulations. Indeed, there is ample evidence that much more time and effort must be directed toward such activities.

## A BOOK REVIEW

Authors and editors:

EUGENE BURDICK AND ARTHUR J. BRODBECK

Title:

### AMERICAN VOTING BEHAVIOR

(Glencoe, Ill., The Free Press, 1959) 475 pages

Ordinarily, books on voting behavior would not be noted in the pages of the *Atlanta Economic Review*; rather one would expect to find them reviewed in journals devoted to political science. It is because this book sheds much light on a matter which concerns businessmen increasingly that it will be examined here.

In *American Voting Behavior* numerous scholars have endeavored to review and interpret the significance of recent research bearing upon the political behavior of people in the United States and Great Britain. These research findings are so surprising that all kinds of leaders—in the business community and elsewhere—need to ponder them thoughtfully. A host of different phases of political behavior (and their relevance to other areas) are treated in the book.

#### Implications for Political Theory

Professor Eugene Burdick, one contributor to the volume, is concerned about the meaning of the research findings in relation to our cherished, traditional political theory (Chapter VI, "Political Theory and the Voting Studies"). Research has shown that voting behavior is substantially based on irrational forces. It has been found to be strongly influenced by one's socioeconomic level, ethnic group, religious affiliation, and geographical location. Moreover, studies have shown that the typical individual really does not make up his own mind about his political choices, as he thinks he does. Really it is the *group* of which he happens to be a part—usually by the accident of birth—which determines his attitudes on political matters. The "reasons" the typical individual gives for his political views are not his true motives at all, and he is actually unaware of what the *real* basis of his political attitudes is! Subconscious drives and complexes are powerfully at work in this sphere.

As Professor Burdick points out, these research findings are most disturbing to our democratic theory because:

*Rationality.* Central to almost every democratic theory has been the idea of the essential rationality of the citizen. Locke conceived this rationality to be so durable that in his famous "state of nature," autonomous rational men were reasonably happy. Indeed each, being possessed of rationality, was able to exercise a form of "executive power" and the over-all effect was one of harmony—blemished only by occasional miscalculations. Locke further conceived that man lost none of his rationality when the civil society was formed. He wrote that men entered civil society "only with an intention in every one the better to preserve himself, his liberty and property for no rational creature can be supposed to change his condition with an intention to be worse."

Another disturbing revelation is that apathy among citizens concerning political matters is commonplace. (Yet, as will be pointed out later, there is a hidden blessing here.) In the words of Professor Burdick:

*Political Nature of Man.* The citizen of classical democratic theory was conceived to be both interested and active in the political discourse. Knowing that the question of who is to be sovereign and how this power was exercised were the most fundamental questions of social life, classical theorists, quite logically, could not conceive that any citizen would ignore the discussion by which the decision was made.

But it is abundantly clear that the voter of today does lack both high political interest and an urge to participate in the political discourse. The voting studies indicate that political discourse is limited, sparse, and desultory. Indeed, most voters make up their minds, and act ultimately on that decision, even before the campaigns begin. Family background, cultural milieu, all of the inchoate pressures of "socioeconomic status" seem subtly to work on the voter in a process which is neither rational nor accompanied by high interest. The conveyors of political information are massively ignored, except by small nuclei of partisans.

Perhaps most disturbing of all is the finding that voting is actually divorced from true political

principles in a large majority of cases. To be more specific, the idea that people commonly listen to various candidates and compare their standards against their own concepts of what true political principles are—this is not what actually happens. Indeed in a large proportion of cases individuals have no clear idea of what their favorite candidates (even for the highest political offices) actually do stand for! This raises serious questions concerning the advisability of trying to get everyone out to vote and generally to take a more active part in political affairs. One cannot help but feel great concern for the probable consequences if mass participation in political activity were to develop.

*Political Principles.* The citizen of classical theory was supposed to vote in terms of a set of values or principles. The ultimate referent might range from a luminous hagiolatry, to an enthusiasm for revolutionary slogans, to a cold calculation of interest; but that the citizen might make his political decisions in an unprincipled manner, classical theory could not concede. More recently there has evolved a more realistic theory based on the assumption that the plurality of principles in a complex modern society was amalgamated into the principles of a political party.

The voting studies, however, do not allow even this last slight image of the principled citizen to remain. The voting studies seem agreed that "if this requirement (of principled voters) is pushed at all strongly it becomes an impossible demand on the democratic electorate." The political party is not regarded as a variegated repository where the conflicting principles of the electorate are merged and made compatible. Much more it is viewed as a traditional allegiance of one very low affect or another in a series of acts aimed at coming to adjustment with one's environment.

In summary, the voting studies etch a portrait of the contemporary voter as a person who votes with relatively high frequency, but on very low information, with very little interest, and with very low emotional involvement in the entire process. The act of voting seems divorced from any coherent set of principles. The original cause of the voter's attitude, the steps by which it is modified before coming to formal decision (what voting scholars call intervening variables), and the whole subtle process of change in political attitudes and institutions are, of course, not so clearly known.

But although the etiology of individual voter motivation and the over-all process of collective political change are not clear, the image of the contemporary voter is clear enough to give serious pause to political theory. For it is evident that the "citizen" of the theorists is really an ideal construction; more paradigm than reality.

Now as has been indicated above this changed version of the citizen does not necessarily destroy previous ethical theory nor does it damage theories of intention. But it does substantially alter some parts of political theory by supplying relatively firm answers for what were previously conjectures or mere statements of preference. The relevance for much of classical theory is so obvious that it need not be remarked. Theories of consent, majoritarianism, the role of elites, the nature of individual and collective will, and theories of social contract are areas which would need radical revision if the findings of the voting studies on the nature of political man and political participation are accurate.

The relevance for contemporary political problems is even more striking. One wonders, for example, if in recent attempts to involve "the public" more directly in international relations, the involvement is either possible or desirable. Given the demonstrated low interest in domestic politics and the even lower interest in foreign

affairs one wonders how this is to be accomplished. If the only manner in which their heightened interest and affect could be achieved is through the adoption of a form of "total politics," the fact would have to be faced that a corollary of high political interest might be a sharp rise in ideology with a parallel rise in tensions and rigidity. Can popular participation mean anything less than "intrusion of the masses" into politics? And if it can, what are the educational and motivational means which must be developed? And how will these means be controlled and to what end?

### How Can the System Work So Well?

Actually, however, the situation is not as gloomy as is suggested up to this point because the democratic processes in the United States and Great Britain, as examples, have resulted over a long period of time in a remarkable degree of public concord—a pearl of great price, especially when achieved, as in these two countries, in a manner consistent with a large degree of personal freedom. Professor Burdick comments upon this remarkable yet baffling achievement thus:

The authors of *Voting* cite an excellent quotation from Judge Learned Hand that, without using the word, focuses upon the problem of concord in a diverse modern society. Hand, after commenting that the act of voting "is one of the most unimportant acts of my life," remarks that if he were to acquaint himself with the facts on which his vote ought really to depend he could only bring a "fatuous conclusion to a fatuous undertaking." He then goes on to say, however, that the system, for all its difficulties and uncertainties, "abuse it as you will, it gives a bloodless measure of social forces—bloodless, have you thought of that?—a means of continuity, a principle of stability, a relief from the paralyzing terror of revolution."

Hand states, however puckishly, a paradox. It seems not to be true that the chaos of democratic government, the irresponsibility of political parties, the blatant appeal to interest, and the confused political warfare could actually result in public concord. But this is what happens. Whatever the qualities of the individual voter, whatever the defects of political parties, whatever the shortcomings of the democratic process, it has, at least in the United States and Britain, resulted in a remarkable degree of concord.

The problem of concord is, of course, most central for political theory. Theories of cyclical development, notions of social contract, problems of individual and social will, the basis for tyrannicide—indeed, almost every problem of political theory comes to bear upon one problem: How is concord achieved and what can make it legitimate?

The voting studies under consideration, I shall argue, supply a partial answer to the problem of concord, but leave very basic problems of etiology unanswered. Before turning to this matter, however, it is necessary to dispose of a theory of concord which it has frequently been alleged that the pollsters, survey experts, and voting scholars advocate. This is the notion that concord is achieved by allowing public opinion to be expressed in public policy. Or, more crudely and explicitly, the argument that simple majority opinion should find a quick and ready response in political policy.

Whatever may be said by other polling, survey, and voting experts, the authors of the three volumes discussed advance no such theory. Only by committing some form of fallacy of *petitio principii* could they be conceived as supporting a crude form of majoritarianism. In all three cases they seem fully aware that the mood or opinion of the whole society is far from being the equivalent of desirable political policy.



However, the three studies do seem in agreement in suggesting that concord, at least in two modern democratic states, flows from simple disinterest in politics. *Voting* states directly that the very low affect of most voters, their lack of ideological commitment, and the low faith in the efficacy of politics make political concord relatively easy to achieve. One is instantly reminded of Bagehot's statement that the true strength of the government of England is the stupidity of the population and his thesis that the very boredom of the citizens and the mediocrity of the statesmen makes for a "rut of freedom." This hard conclusion, needless to say, none of the voting studies are prepared to make.

### Supraparty Consensus

Professor Talcott Parsons (Chapter IV, "Voting and the Equilibrium of the American Political System") advances another insight or theory to explain why the American political system has worked as well as it obviously has. On the one hand, there are the numerous irrational forces which would, by the logic of the matter, tend to result in numerous cleavages in society and make a party system unworkable; on the other hand, there must have been some other forces making for consensus and unity in the American people, else our country would have been torn apart time and again by civil strife. What is it that has made for unity? Professor Parsons believes that there has been a:

... recognition that there are common "rules of the game" binding on all participants. But consensus seems to go beyond this. Though some distortion in perception of candidates and issues can be detected, it seems fair to say the notable thing is not that distortion exists, but that it is relatively small. Thus, there seems to be fair agreement across party lines on the characteristics of the candidates and the relevant criteria to judge them, on what the major issues of the campaign are, on various expectations for the future, and on expectations of the voting tendencies of various blocs of voters. There is, to a fair degree, a common framework both of institutional norms and of cognitive definition of the situation.

Professor Parsons is not disturbed over the fact that research has indicated that individual voting behavior is overwhelmingly determined by rather accidental group affiliations (the strongest of which is the family). Commenting on the significance of solidary groupings he says:

In any case, whatever the more specific psychological mechanisms, the effect of the "pull" of the solidary groupings of the social structure on individuals, as a result of which they vote with their fellow members of such groups, is to contribute greatly to what I have called the generalization of support. As the authors of *Voting* state several times the individual tends to vote as a group member. But it is precisely as a structure of groups that a society is stable and integrated. If people vote as members of the stably important groups of the society, this provides an element of stability in the structure of political alignments itself which matches and is a consequence of the stability of the social structure.

And, concerning the stable behavior of the voter, Professor Parsons says:

It is true that these tactics of the voter do not correspond to the stereotype of the classical independent voter with his sophisticated rational choice. But this newly discovered changeable voter has one trait consistent with that stereotype: he shows a kind of (albeit negative) sense of responsibility. He does not jump or panic lightly into extreme shifts of allegiance. When he does move it is cautiously and not very far. When pressed he tends to retreat to safe ground. By and large he does not rock the boat. But he is the primary agent in shifting the balance of political forces. In favorable circumstances this shift is accomplished without any deep or lasting cleavage.

Professor Parsons provides a handy summary of the most important features revealed by voting-research to date in these few paragraphs:

Perhaps the most striking group of findings come in the first of the three main areas: stability, flexibility, and level of interest in the campaign. These concern in a sense the status of the "independent voter"; and, from the point of view of some of the ideologies dear to intellectuals, the findings may seem rather shocking. The fact seems to be that the groups most likely to escape from the traditionalism of habitual and inherited voting patterns are those least intensely interested in the issues of the campaign. They are not particularly well informed and, indeed, often are on the margin of not voting at all. These are the groups that provide the main element of flexibility in the system, the main source of the shifters from one party to the other. It is also important that these are the same kind of people who, as they report their recollection of previous votes, are most likely to have shifted allegiance between campaigns. Furthermore, intensification of the campaign tends to drive them back to their previous habits of voting.

A second very important and closely related finding is that a large proportion of the voters susceptible to shifting are people subject to "cross-pressures." These are people who, in the cross-cutting status structure of our complex society, belong simultaneously to solidary groups membership in which would predispose them to vote in both of the two major directions, so that they are exposed to a role-conflict. An example would be the well-to-do businessman of Irish-Catholic origin. The evidence seems to be that a considerable proportion of the people thus exposed to cross-pressures resolve their conflict by not voting at all. In any case, those who do vote make up their minds later than those not so exposed, and shift from previous allegiances more frequently.

Another primary fact, of course, is that the great majority of voters are settled in their party allegiances and will not be influenced to vote for the opposing party by either the personality of the candidate or the discussion of issues. These in general include those who feel most intensely about the outcome and take the most active part in politics at all levels. This evidence, combined with other facts, seems to make clear a fundamental connection between the psychology of voting behavior and the mechanisms by which the balance of stability and flexibility are maintained which is of great interest here.

**Recommendation:** A very worthwhile book; for serious reading; offers many insights into human behavior besides the political aspect.

W. R. K.

ATLANTA ECONOMIC REVIEW



## *On Winning Friends And Influencing People (To The Businessman's Viewpoint) At The Polls*

The voting behavior of the typical citizen has become a matter of increasing concern to American businessmen. The fact that voters in 1958 in a number of key states turned down the "right to work" laws—even after the McClellan Committee's revelations—was an eye-opener. This verdict at the polls seemed shocking to many management people; generally they felt that the "right to work" laws deserved adoption as a matter of elementary human rights—rights based on fundamental moral grounds. (Of course, some would say that the businessman's concern was based merely on the desire to weaken organized labor, and this motive may have played a role in many cases. However, the cynical view that the businessman is wholly oriented in his attitudes according to the interest of his pocketbook is probably more a revelation of the critics' frame of mind than it is of managers of firms.)

Many businessmen have come to feel that in their political behavior the American people are now mainly unsympathetic with the legitimate needs of business enterprises. Although businessmen themselves are convinced that they have very little political influence, large numbers of people around the world continue to believe the myth that "monopolists" control politics from behind the scenes; note that the villain in the piece is always that mythical figure, the **big business executive**.

Having seen the era of their direct influence on political affairs substantially pass away (1860-1930), there has been much rethinking and experimentation as to what avenues of legitimate public service and political influence are now open to business leaders. One of the most significant new developments of this type has been the activity over the past decade of the Committee for Economic Development. Those who have led this movement believe that the proper role of businessmen is in formulating impartial, high-quality reports on a variety of public policy measures in which the general welfare of the American people (not the businessman's special interest) is held as the paramount objective. Certainly the CED reports have achieved a fine reputation among college professors, government officials, and the newspaper fraternity. It remains to be seen, however, whether an approach of this kind can significantly affect the course of political developments in the long run. The CED

approach is a highly rational one, and, to be successful, it must offset powerful irrational forces arising in numerous segments of the American scene.

### **SUGGESTIONS FROM VOTING RESEARCH TO THE BUSINESSMAN**

Recognize in the first place that voting behavior is largely determined by subconscious, irrational forces, and that people behave in accordance with mental images of which they are themselves entirely unaware. It is the **group** in which he happens to have been reared which basically determines how the individual votes; he absorbs the outlook of his group.

It is probably futile to try to alter subconscious images (and inferiority complexes which are apparently at work on a grand scale) through the usual communication media such as newspapers, television speeches, and billboard banners. Apparently, according to modern psychology, subconscious attitudes can be changed, at least in the short run, only by emotional experiences. Can emotional experiences be arranged so as to bring about fundamentally different attitudes in people's minds about themselves and the outside world around them? It is hard to conceive how this could be done, yet this is one direction in which progress must be made if business is to win more friends for its point of view at the polls.

Next, don't think politics will be improved if everyone would show an interest and get out and vote. Actually, people disinclined to vote are generally poorly informed and will be influenced, if they do vote, by mainly irrational factors.

Finally, note that it is principally people who are "cross-pressured" who are inclined to alter their traditional, inherited voting habits. Chiefly this means that as an individual rises in his socioeconomic status he is strongly inclined to vote differently. (It's a gradual change, and generally the individual under "cross-pressures" goes through a transition period when he doesn't vote at all; the process involves acquiring new circles of friends, that is, becoming a part of new **groups**.) Here is the one chief sector of the population in which business can locate new friends for its viewpoint.

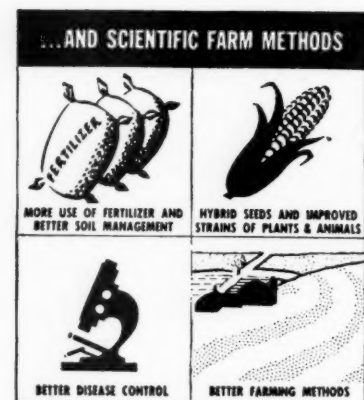
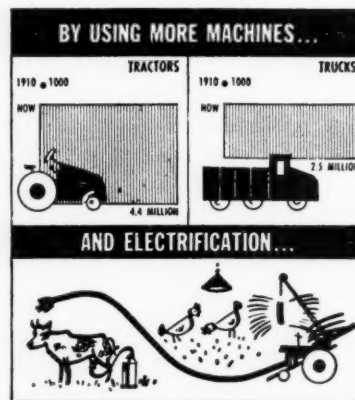
W.R.K.

# THE NEW AGE OF AMERICAN FARMING: A PROFILE\*

Keeping pace with the technological revolution in industry which has transformed American life in the past half century has been an equally dramatic revolution on the farm. Technological progress and science has provided the United States with an agricultural abundance such as the world has never seen. It has not only provided more for our own people; it has enabled us to supply world markets at times of critical need.

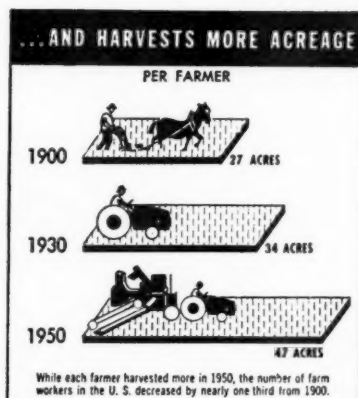
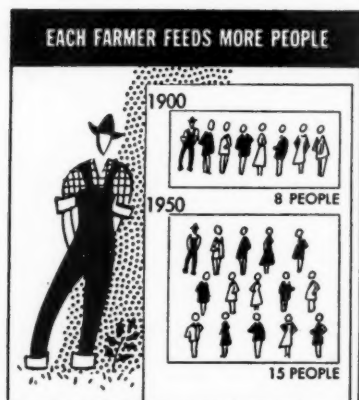
With this phenomenal abundance, however, have come troublesome problems. Surpluses have accumulated beyond our ability to dispose of them. Farm income has fluctuated sharply, often causing economic want in the farm community. Imbalances in our export and import of agricultural products have caused further dislocations to the farm economy.

## 1. Farming has gone through a technological revolution

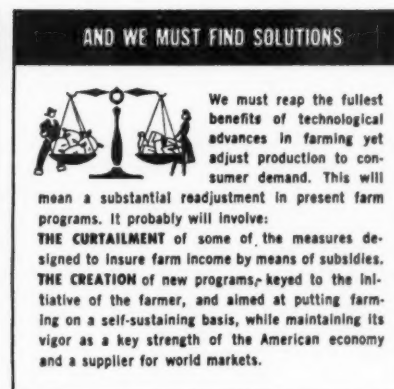
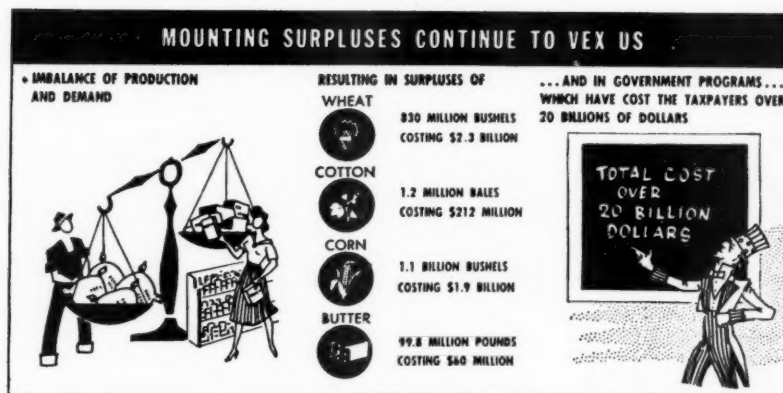


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Illustrations: Twentieth Century Fund by Pictograph.

## 2. The consequences of the revolution have been widespread



## 3. But problems have arisen...amid the major advances



In order to overcome some of these problems the government has spent well over \$20 billion on a wide variety of farm programs. But the problems have not been solved. This chart, based on the Twentieth Century Fund "Can We Solve the Farm Problem?" by Murray R. Benedict, outlines the strength of American agriculture and delineates some of the problems that have arisen as well as some of the ways which have been suggested for meeting these problems.

# The Southeastern Corner

by

Warren A. Walker



## CARROLLTON LOOKS AHEAD

The heading of this article is paraphrased from a recently published city plan for Carrollton, Georgia. This study, whose full title is "Carrollton Looking Ahead—A Plan for Carrollton's Future," was prepared by the Carrollton-Carroll County Planning Commission under the supervision of Menhinick & Little, Consulting City Planners of Atlanta, Georgia.

### A Good Pattern of Land Use

In an article on Douglas, Georgia, it was pointed out that practically every community has some strong point that can be used as a starting point for future development. In the case of Douglas the strong point was the city's better-than-typical financial condition. In the case of Carrollton the strong point is that generally there has been a good pattern of land use through the years. While it is true that this pattern of land use did not develop as a result of any long-range plan of city development, it did provide a useful starting point for such a plan.

Two principal factors were involved in this favorable land-use pattern. One was the slowness of growth and the fact that it was generated from internal factors. Sudden growth, especially when generated by an external factor such as the activation of a large military establishment, tends to

bring on land speculation and uneconomic land use. Carrollton has never been faced with this type of situation. The other factor has been the rather distinctive topography of the area, which has not only influenced the location of highways and railway tracks, as in all communities, but has actually produced a grouping of activities.

The question might very well be asked, and in fact was asked in some quarters at the time this project was undertaken, that if these conditions for natural control exist, why is the project necessary? The reason is one that many city officials tend to overlook from time to time: that is, a favorable set of circumstances cannot be counted on to continue indefinitely. In the case of Carrollton it became apparent to many of the thinking citizens that this immunity from the influences of external factors was to end within the foreseeable future—probably within the next decade.

### An Hour's Driving Time

As a sort of rule of thumb, the effective metropolitan area of Atlanta has been defined as those points that are within one hour's driving time of the commercial portions of the city. For all practical purposes the improved highway system now under construction will place Carrollton within the Atlanta metropolitan area.

Coupled with this improved transportation is the fact that the commercial areas of Atlanta are no

<sup>1</sup> "The Southeastern Corner." Atlanta Economic Review, September, 1958.



longer confined to the central section. Many commercial operations, especially at the wholesale level, are as much as ten miles or more to the west of the central business district. In effect, this means that for certain types of analysis Carrollton and Atlanta are now ten miles closer together than they were even a few years ago.

To the north and south of Atlanta examples are already available of what happens when portions of an improved highway system become ready for use. Economies that are essentially rural in nature can become realigned rather suddenly under the impact of such a change in transportation, but not always without some rather painful internal pressures. This is the type of situation that Carrollton wished to avoid.

#### **Time and Money**

A statement often heard in small communities is that while some advance economic planning would be a good thing, the citizens do not have the time, and the city does not have the money.

An examination of the report on Carrollton indicates that the requirements of both time and money were fairly modest in relation to the benefits to be derived. Individual citizens devoted hundreds of hours to the project, but when this time was spread over a fairly large number of individuals and distributed over a period of more than two years it did not constitute an unreasonable burden on anyone. The total cost of the program over a two-year period was approximately \$6,500. Of this figure only about \$4,000 came directly out of local funds, the remaining \$2,500 being provided by the Federal government.

In this connection it should be noted that Carrollton was the first small community in Georgia to complete a city plan under the "701 program." The program takes its name from the fact that the funds were made available under the provisions of Section 701 of the Federal Housing Act. This fact plus the fact that the city operated approximately a year without any assistance from anyone indicated the progressive spirit of this community.

#### **Benefits to the City**

##### **Tangible**

As a result of the Carrollton planning program, the city received a number of assets that every progressive community would like to have. These included:

(1) An accurate and properly-scaled base map of the city, locating streets, utilities, etc.

(2) A land-use survey showing the use that is currently made of every parcel of land in the city—whether for business, industry, residences, or public use. Even these headings are subdivided so as to provide an accurate picture.

(3) An economic analysis. Basically, such an analysis for a community includes an inventory of **present** economic resources and a projection of probable **future** economic resources. Such a study provides a sound base upon which to estimate the amount of development that can be expected within any given period. It also suggests what types of growth should be encouraged as being in line with the over-all economic character of the community.

(4) Closely connected with the economic analysis is a population study and forecast which is intended not only to provide an inventory of the character of the present population and its location, but also to provide a basis for estimating the character and location in the future.

(5) In addition, there are a number of studies that supplement and expand the details of the broad studies indicated above. These include such features as a street system plan comprising traffic studies, parking facilities, and pedestrian accommodations.

(6) Special studies were also made of public utilities, schools, hospitals, and other public buildings. The objective was to tie in these studies with the population and economic studies in order to examine the adequacy of these facilities for both the present and the future.

(7) Finally, there is the future land-use plan, together with suitable codes and ordinances to implement the over-all plan. When a community has reached this point it is no longer dependent on mere fortuitous circumstances for the protection of land values and orderly growth.

##### **Intangible**

The tangible assets enumerated above are not the only benefits to be derived from such a program. Not the least of the advantages is the resulting awareness on the part of the individual citizen that the value of his property is being protected through intelligent restrictions on land use.

Another benefit is that a planning program gives the community a reputation for being progressive and acting in the best interest of its taxpayers. This constitutes an asset almost beyond price for attracting new industry or commercial enterprises.

A unified program of this type brings about a degree of cooperation between the various city departments that is almost impossible to achieve under any other circumstances.

Finally, there are the financial aspects. When property values are protected by proper regulations, long-term mortgages are much more available to the company or individual. As was pointed out in the article on Douglas, Georgia, funds for urban renewal usually are not available except where a workable plan has been put into effect.

The officials, citizens, and consultants of Carrollton are to be commended on a good job promptly done.

August, 1959

## ATLANTA AREA ECONOMIC INDICATORS

Item	August 1959	July 1959	% Change	August 1958	% Change	% Change Eight Months '59 over Eight Months '58
<b>EMPLOYMENT</b>						
Job Insurance (Unemployment) Payments -----	\$346,205	\$373,445	- 7.3	\$724,792	- 52.2	-48.5
Job Insurance Claimants† -----	5,484	6,210	-11.7	10,291	- 46.7	-44.6*
Total Non-Ag. Employment -----	357,200	355,700r	+ 0.4	344,400r	+ 3.7	+ 3.8*
Manufacturing Employment -----	85,900	86,050	- 0.2	82,700r	+ 3.9	+ 5.1*
Average Weekly Earnings, Factory Workers -----	\$81.41	\$81.61	- 0.2	\$80.19r	+ 1.5	+ 8.0*
Average Weekly Hours, Factory Workers -----	40.5	40.6	- 0.2	40.5r	0.0	+17.4*
Index of Help Wanted Ads (Seasonally adjusted, 1947-49 Avg.=100) -----	199.6	190.4	+ 4.8	125.4	+ 59.2	+54.3
<b>CONSTRUCTION</b>						
Number of Building Permits§ -----	738	718	+ 2.8	731	+ 1.0	+ 8.7
Value of Building Permits§ -----	\$13,044,402	\$9,503,817	+37.3	\$5,027,275	+159.4	+31.8
Employees -----	25,500	25,600r	- 0.4	25,300r	+ 0.8	+17.9*
<b>FINANCIAL▲</b>						
Bank Debits (Millions) -----	\$1,990.2	\$2,052.3	- 3.0	\$1,635.6	+ 21.7	+20.2
Bank Deposits (Millions) -----	\$1,292.2	\$1,269.7	+ 1.8	\$1,222.4	+ 5.7	+ 7.9**
<b>OTHER</b>						
Department Store Sales Index (Adjusted 1947-49=100) -----	188	178	+ 5.6	183	+ 2.7	+ 2.7†
Retail Food Price Index -----	116.4	117.0	- 0.5	118.5	- 1.8	- 1.8**
Number of Telephones in Service -----	337,769	336,860	+ 0.3	317,770	+ 6.3	+ 6.3**

r—Revised

\*Average month

\*\*End of period

†—Based on retail dollar amounts

§City of Atlanta only.

N. A.—Not Available

▲Data from members of the Federal Reserve System only.

†New series. Covers unemployed Federal employees and unemployed veterans in addition to those covered by Georgia law. Claimants include both the unemployed and those with job attachments but working short hours.

Sources: All data on employment, unemployment, hours, and earnings: Employment Security Agency, Georgia Department of Labor; Number Help Wanted Ads: Atlanta Newspapers, Inc.; Building permits data: Office of the Building Inspector, Atlanta, Georgia; Financial data: Board of Governors, Federal Reserve System; Postal data: Atlanta Post Office; Retail Food Price Index: U. S. Department of Labor; Department Store Sales Index: Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System; Telephones in Service: Southern Bell Telephone and Telegraph Company.

## ATLANTA BUSINESS ACTIVITY

The August opening of the Southeast's largest shopping center, Lenox Square, substantially contributed to a third straight record breaking month of **nonagricultural employment** in the Atlanta area. New jobs at the center also pushed the state's non-farm workers over the million mark—two months ahead of predictions. Atlanta's August total of 357,200 was 1,500 greater than July, the largest gains being in retail trade, due, of course, to the center's influence as well as increased activity in retail grocery stores and filling stations. There was a mild decrease in **manufacturing employment**—specifically durables, due to automobile model change-overs affecting plants and auto transit employment. Other seasonal declines occurred in lumber and wood products. The declines in durables were somewhat offset by gains in nondurable production, particularly paper, printing, publishing, and allied products. Despite the net loss in manufacturing employment

during August, there was a strong demand for labor in the Atlanta area, evidenced by a decline in both **job insurance payments** (7.3 per cent) and **job insurance claimants** (11.7 per cent). More striking is the fact that **help wanted ads**, with or without seasonal adjustment, reached an all-time high for Atlanta.

Construction activity, as measured by the **value of building permits** issued in the city, continued to rise as permits totaling \$13,044,402 were issued in August. The total for eight months of 1959 ending in August was 31.8 per cent more than for the same period of 1958.

**Bank debits** declined three per cent from their July record for the city—\$2,052,300,000. Nevertheless, they were still 21.7 per cent higher than in August of last year. **Bank deposits** of \$1,292,200,000 for August constituted an all-time high for the city, the previous record being in December of 1958, when they totaled \$1,289,300,300.

J.R.O.

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